

PORT OF EVERETT
Snohomish County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Port Officials Should Limit Investments To Those Authorized By State Law

At December 31, 1993, the Port of Everett held \$1,115,663 of its investments in collateralized mortgage obligations which had been purchased through the Merrill Lynch Trust and the Oxford Acceptance Corporation. We are of the opinion that such investments, when issued by private placement firms, do not represent legal investments for a port district.

Appropriate investment instruments for port funds are defined in RCW 53.36.050 which states in part:

... any portion of port moneys determined by the port commission to be in excess of the current needs of the port district may be invested in certificates, notes, bonds, or other obligations of the United States of America, or any agency or instrumentality thereof

The port's investment authority is expanded under RCW 39.59.20(4) to include substantially:

Any investments authorized by law for the treasurer of the state of Washington or any local government of the state of Washington

However, we find no legislative authority which would sanction the port's investment in trusts or funds which have been issued by private placement firms that do not provide the port with direct ownership of the investment.

Investment laws for municipalities are written to protect public funds from loss. Among these legal protections is the requirement that the municipality have direct ownership of the investments. Without such direct ownership, the port owns no underlying security to serve as collateral in the event that it does not receive its principal from the brokers upon the sale of the port's equity in one of these trusts.

We recommend that port officials limit investments to those authorized under state law and take necessary steps when making investments to safeguard public funds.

2. The Port Should Improve Internal Controls Over Cash Receipts And Accounts Receivable

The following internal control weaknesses were observed during our audit.

- a. The payroll accountant has total autonomy over COBRA (Consolidated Omnibus Budget Reconciliation Act) accounting without supervisory review. She also receives COBRA checks directly from the person opening the mail. In addition, there is no evidence that billing statements from the health care provider are reconciled to the payroll warrant register and the COBRA account files.

We recommend the following:

- (1) The person performing the accounting for COBRA accounts should not handle receipts.
- (2) Someone other than the payroll accountant should reconcile the billing statements to the payroll warrant register and the COBRA account files on a monthly basis.

- b. A lack of segregation of duties exists over Marine Terminal Accounts Receivable. The administration office cashier enters billings, receipts payments, and posts payments to the subsidiary terminal accounts. In addition, the deputy treasurer's reconciliation of the subsidiary system to the general ledger is not being performed on a consistent basis.

We recommend that persons handling receipts not be involved in the posting of billings and payments to the subsidiary accounts. We further recommend that the deputy treasurer perform general ledger reconciliations on a monthly basis.

- c. The finance director has total autonomy over lease account transactions without review by a second party.

We recommend that the lease accounts receivable in the general ledger system be reconciled to the subsidiary system by someone other than the finance director, on a monthly basis.

- d. A lack of segregation of duties exists over Yacht Club accounting transactions. The facility's manager prepares and records billings, receipts payments, and posts payments to the subsidiary accounts.

In addition, invoices are used as receipts. Receipts are summarized on a monthly spreadsheet prepared by the Yacht Club manager. This invoice spreadsheet is prepared in pencil and is used by the deputy treasurer as the source for posting revenue to the general ledger accounting system. The information on the invoice spreadsheet is not verified to the actual invoices or the subsidiary account records at the Yacht Club.

We recommend that receipts be used to document payments and that all records be prepared in ink. We further recommend that segregation of duties be established over Yacht Club transactions. In addition, revenue information submitted to the administration office should be verified with actual invoices and reconciled to Yacht Club accounting records.

- e. Currently, mail payments are opened and recorded by the administration office cashier.

We recommend that two persons open the mail and document all payments received.

- f. Cash collections from the boat ramp ticket machine are not submitted for deposit on the day of collection. In addition, some Yacht Club mail payments are sent to the Yacht Club and then back to the administration office before being deposited.

We recommend that all receipts be deposited the same day that they are received or collected.

- g. The port allows the cashing of personal checks. To ensure that receipts are deposited intact, we recommend that a policy be adopted prohibiting the cashing of personal checks.
- h. The laundry, shower, and boat launch receipts were not collected and counted by two persons on a consistent basis. We recommend that two persons collect the money. A receipt should be prepared and signed by both persons.
- i. Current methods of receipting at the administration office involve copying the same information several times on various forms which are used for posting or referencing account information. The original receipting document (Daily Cash Breakdown Sheet) could be used for the same purposes.

To ensure accurate recording of receipts and prevent duplication of effort, we recommend that receipt recording procedures be restructured at the administration office.

- j. Currently, gas dock receipts are counted four times and marina receipts are counted three times by the time they are deposited at the bank.

We recommend that deposits be placed in locking bank bags and brought directly to the bank. Marina and gas dock receipting documents should then be reconciled to the bank deposit receipt by the administration office cashier.

The internal control weaknesses identified above decrease the accountability over the cash receipting and accounts receivable systems. In addition, they could allow errors and/or irregularities to occur without being detected in a timely manner.

We recommend that port officials improve internal controls over cash receipts and accounts receivable.

3. The Port Should Improve Internal Controls Over Inventory

a. We observed weaknesses in controls over equipment replacement parts during our audit. We recommend the following:

(1) Inventory records should be maintained documenting purchases and use of equipment replacement parts. Purchases should be identified with the related purchase order or warrant number. Use of the parts should be supported by work orders.

(2) At least quarterly, a reconciliation should be performed between stock on hand and recorded inventory balances. Discrepancies should be investigated and follow up should be performed, if necessary. Review and follow up should be documented.

(3) For financial statement purposes, an inventory count and reconciliation should be performed at year end.

(4) Someone other than the person who handles equipment replacement parts should perform the quarterly inventory counts and reconciliations.

(5) The finance director should review the inventory reconciliation for propriety and post use of the parts inventory and adjustments to the general ledger.

b. Port officials have established accounting procedures for fuel and materials inventory, however our audit disclosed the following:

- At the beginning of the year, the actual amount of diesel fuel was 292 gallons over the accounting records. By year end, actual fuel was 2,353 less than the accounting records. Regular gas on hand varied throughout the year, from 884 gallons under to 2,376 gallons over the accounting records. In addition, the cost of materials purchased for resale exceeded sales for the year.

We recommend that inventory selling and accounting procedures be reviewed for the purpose of identifying internal control weaknesses and to implement new procedures that would prevent future discrepancies.